

## Message Text

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ORIGIN SS-10

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O 031536Z JAN 74

FM SECSTATE WASHDC

TO ALL OECD CAPITALS IMMEDIATE

AMEMBASSY ABU DHABI

USINT ALGIERS

USINT BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY MANAMA

AMEMBASSY TRIPOLI

S E C R E T STATE 000667

EXDIS

FOLLOWING SENT SECSTATE, JAN 3, FROM TEHRAN RPTD TO YOU:

QUOTE S E C R E T TEHRAN 0045

EXDIS

DEPARTMENT PLEASE PASS ALL OPEC AND OECD CAPITALS

E.O. 11652: GDS

TAGS: ENRG, OPEC, IR

SUBJECT: OPEC PRICE INCREASE

REF: A. JIDDA 5715 B. TEHRAN 9001 C. TEHRAN 9083 D. USOECD

PARIS 33094 E. STATE 250896

SECRET

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1.FINMIN AMUZEGAR, IN JANUARY 2 CONVERSATIONS, READILY  
ADMITTED TO ME THAT YAMANI TOOK MORE MODERATE POSITION ON  
PRICE THAN HE. THEN IN RESPONSE TO MY REQUEST, HE EXPLAINED  
HOW OPEC HAD CONFRONTED PRICE SITUATION AT DECEMBER 22-23

MEETING. HE SAID THAT OPEC ECONOMIC COMMISSION HAD SUGGESTED FOUR METHODS OF COMPUTING PRICE:

A. NETBACK FROM PRICES AT ROTTERDAM (PRESUMABLY HE MEANS FROM AVERAGE OF ALL PRICES OR AVERAGE PRICES FOR TERM CONTRACTS, AS OPPOSED TO SPOT SALES). THIS METHOD INDICATED A GOVERNMENT TAKE OF \$5.45, IMPLYING A POSTED PRICE OF OVER \$9. THIS, SAID AMUZEGAR, WAS THE LOWEST FIGURE DISCUSSED AT THE CONFERENCE AND THE ONLY ONE ADVOCATED BY YAMANI ON THE FIRST DAY OF THE MEETING.

B. RESULTS OF THE IRANIAN TENDER (\$17 MARKET PRICE) SUGGESTED A POSTED PRICE OF SOME \$23, ON THE BASIS OF THE 1.4 POSTING/MARKET RATION ESTABLISHED AT KUWAIT.

C. ALGERIAN SELLING PRICE OF \$12.90 (ACCORDING GON ECONOMIC COMMISSION), GIVES AN ADJUSTED MARKET PRICE OF \$10 (APPARENTLY THIS FIGURE DERIVED BY SUBTRACTING DIFFERENTIALS FOR GRAVITY, SULPHUR, AND SHORT HAUL TRANSPORTATION), WHICH IN TURN IMPLIES POSTED PRICE OF \$14.

D. NETBACK FROM SPOT PRICES IN ROTTERDAM INDICATED A MARKET PRICE OF \$7 AND A POSTED PRICE OF \$23.

2. AMUZEGAR SAID THE CONFERENCE BASED ITS DISCUSSIONS ON THE ECONOMIC COMMISSION'S REPORT, ADOPTING AT THE OUTSET THE COMMISSION'S RECOMMENDATION THAT THE TWO HIGHEST PRICES (B AND D ABOVE) BE DISCARDED. THUS, ACCORDING TO AMUZEGAR, DISCUSSION AT THE TEHRAN MEETING CENTERED, FROM THE BEGINNING, ON POSTED PRICES RANGING FROM \$9 TO \$14, WITH IRAQ, KUWAIT AND ABU DHABI IMMEDIATELY SUPPORTING THE LATTER FIGURE.

3. AYAMANI SUPPORTED A GOVERNMENT TAKE OF \$5.45 DURING THE  
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FIRST SESSION BUT NEVER MENTIONED \$4.25 ACCORDING TO AMUZEGAR. LATE IN EVENING OF DECEMBER 22, HOWEVER, YAMANI TOLD AMUZEGAR PRIVATELY THAT HE WOULD SETTLE FOR A \$6.00 GOVERNMENT TAKE. AMUZEGAR REPORTED THIS REMARK AND FIRST DAY'S DISCUSSIONS TO SHAH, WHO COMMENTED THAT REZA FALLAH, WHO HAD GONE TO EUROPE AND AMERICA AT SHAH'S REQUEST TO GATHER INFORMATION ON ESTIMATED COSTS OF ALTERNATE SOURCES OF ENERGY, HAD REPORTED THAT COST OF SUCH ALTERNATIVES RANGED FROM \$7.35 TO \$11.00 PER BARREL OF OIL. SHAH THEN SAID IN EFFECT THAT SINCE \$7 IS AT LOWER END OF THIS SCALE, IRAN SHOULD GO FOR THAT. ALSO \$7. HAPPENED TO FALL SOMEWHERE IN THE MIDDLE BETWEEN THE TWO PROPOSED PRICE LEVELS.

4. IT SEEMS TO ME THAT ABOVE ACCOUNT AND THAT OF JIDDA 5715 ARE NOT INCOMPATIBLE, BUT RATHER THAT DIFFERENCES BETWEEN THEM ARE EASILY ACCOUNTED FOR BY THE DIFFERING PERCEPTIONS OF THE TWO PARTIES. YAMANI NO DOUBT IS CONCERNED, AND RIGHTLY SO, ABOUT SHORT-TERM EFFECTS OF THE TEHRAN DECISION UPON THE WORLD ECONOMY AND ABOUT THE DANGERS OF CREATING OR FURTHERING AN IMAGE OF BLOODSUCKING ARABS. (I HAVE ON OCCASION WONDERED WHY YAMANI PUSHED TO HOLD THE RECENT MEETING IN TEHRAN, KNOWING AS HE MUST THAT THE SHAH WOULD NOT MISS AN OPPORTUNITY TO STEAL SUCH A SHOW. I NOW WONDER WHETHER HE HAS NOT OBTAINED JUST THE RESULT HE SOUGHT. HE MAY HAVE SUCCEEDED IN STEALING FROM THE SHAH HIS PRIZED POSITION AS OPEC'S LEADING MODERATE OIL STATESMAN.) THE IRANIANS TOO ARE CONCERNED OVER SHORT-TERM PROBLEMS BUT FOR SOME TIME HAVE BEEN FOCUSING ON THE PROBLEM OF LONG-TERM STABILITY OF WORLD MARKETS AND CONSERVATION OF A VALUABLE AND FINITE RESOURCE. HOWEVER STRANGE IT MAY SEEM TO US, THEY FEEL THEY HAVE STRUCK A BLOW IN FAVOR OF THESE TWO GOALS, WHILE EXERCISING MODERATION IN THE FACE OF THE PRESENT CHAOTIC MARKET SITUATION AND IN VIEW OF THE PRICE RANGE PROPOSED AT THE TEHRAN MEETING BY THE ECONOMIC COMMISSION.

5. JUST AS NO ARAB WOULD DARE CALL PUBLICLY FOR MODERATION OF PRESENT ARAB PARTICIPATION DEMANDS (WHICH WILL ALSO INCREASE THE EFFECTIVE PRICE OF OIL, NEITHER IS IT LIKELY THAT FAISAL, THE SHAH OR ANY OTHER PRODUCER WILL  
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BE THE FIRST TO STAND UP AND CALL FOR A REVERSAL OF THE RECENT OPEC DECISION, AND A DROP IN THE PRICE OF OIL, PARTICULARLY IN THE FACE OF PRICES BEING OBTAINED BY NIGERIA, LIBYA, AND OTHER PRODUCERS.

6. FINALLY, I SHOULD LIKE TO NOTE THAT NO IRANIAN OFFICIAL WITH WHOM I HAVE TALKED HAS CONVEYED TO ME THE CONVICTION THAT ANY CONSUMER MIGHT HAVE AGREED IN ADVANCE TO THE TEHRAN DECISION OR WOULD REACT FAVORABLY TO IT. THE NUMEROUS DEMARCHES MADE DURING THE CONFERENCE WOULD CERTAINLY HAVE DISPELLED ILLUSIONS ON THAT SCORE ON THE PART OF THE PARTICIPANTS IN THE MEETING. AMUZEGAR FLATLY DENIED THAT HE HAD SUGGESTED THAT ANY CONSUMER HAD GIVEN "PRIOR APPROVAL". HE SAID THAT HIS ONLY REFERENCE TO THE UNITED STATES AND BRITAIN ON THE LAST DAY OF THE MEETING WAS IN THE CONTEXT OF HIS REPORT ON FALLAH'S EFFORTS IN TRIPS THERE TO ASCERTAIN THE BEST ESTIMATES OF THE COST OF ALTERNATIVE SOURCES OF ENERGY.

7. OUR PROBLEMS REMAIN THE OBVIOUS ONES OF CONFRONTING THE IMMEDIATE DIFFICULTIES CERTAIN TO RESULT FROM THE TEHRAN DECISION, OF ATTEMPTING TO HEAD OFF ANY FURTHER

PRICE INCREASES, AND OF ESTABLISHING A STABLE SYSTEM OF  
RELATIONS AMONG OIL PRODUCERS AND CONSUMERS. AS INDICATED  
IN OTHER MESSAGES. WE BELIEVE THAT THE CONSUMER COUNTRIES  
HAVE CONSIDERABLE LEVERAGE IF ACTING IN COMMON, BUT WE FAIL  
TO IDENTIFY ANY USEFUL PRESSURE WHICH CAN BE EXERTED BY  
INDIVIDUAL CONSUMERS ON INDIVIDUAL PRODUCERS, SUFFICIENT  
TO OBLIGE THE LATTER TO BREAK RANKS ON PRICES..  
HELMS UNQUOTE. RUSH

SECRET

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ABU DHABI  
ALGIERS  
BAGHDAD  
CARACAS  
JAKARTA  
JIDDA

KUWAIT  
LAGOS  
MANAMA  
TRIPOLI

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